

BEAUTY CONNECT

BAIRD'S TAKEAWAYS

November 2024

Baird's Takeaways from Beauty Connect Los Angeles

We recently attended the Beauty Connect conference in Los Angeles, which was well attended by brand founders, investors and service providers. This year, despite a more subdued backdrop (slower beauty category growth, less investment activity on the part of both strategics and financial investors), the tone of the conference was very much one of looking ahead to a brighter and more beautiful 2025. We heard a lot about what consumers value today (transparency and quality), how the retail landscape is evolving (more online and DTC as brands broaden their presence) and how important having the right partners is when it comes to supply chain. We offer a few takeaways below.

1. 2024 BEAUTY HEADLINES HAVE BEEN LESS ROSY, BUT OPTIMISM PREVAILS AS WE LOOK TO 2025

3. FINDING THE RIGHT CONTRACT MANUFACTURING PARTNER IS MORE IMPORTANT THAN EVER

2. THE INTERSECTION OF BEAUTY & WELLNESS CONTINUES TO EVOLVE AND EXPAND

4. RETAIL WINNERS: NOT JUST AMAZON AND TIKTOK SHOP BUT QVC AS WELL (YES, QVC!)



2024 Beauty Headlines Have Been Less Rosy, But Optimism Prevails as We Look to 2025

- In 2024, we have seen the stock prices of several of the large beauty players take a hit (think Estée Lauder, Ulta, e.l.f., to name a few), as growth has shifted and slowed and as consumers continue to be discerning in their purchasing behavior. With this as a backdrop, it is perhaps not surprising that we have seen a slowdown in M&A activity this year, with fewer brands being acquired by either larger strategics or private equity firms (yes, Summer Fridays had a terrific outcome, but there are many other strong beauty brands whose sale processes have stalled - think Kosas and OSEA).
- That said, as we look to 2025, beauty insiders at the conference sounded optimistic about a return to stronger growth for the industry, recognizing that there are still favorable dynamics at work. With consumers becoming more educated about their beauty & wellness needs, they are increasingly willing to pay premium prices to have those needs met and with greater access to more brands through evolving retail distribution. As a result, the investors that we heard from (both venture capital and private equity) appeared to have adopted a somewhat more selective stance with regard to investing in the beauty space and everyone seemed to agree that “this too shall pass” - that 2025 will likely be a stronger year in terms of industry growth and M&A deal activity.
- A few notable thoughts that we heard over the 2-day conference about “what will work” in 2025 are as follows:
 - Graphics are more important than demographics when marketing to consumers. Attitudes and aspirations are more important than age and affluence.
 - Marketing to everyone is marketing to no one. Identify your target audience and be sure to resonate with them.
 - Once you have a hero product, make it a halo. Growth only matters when it is sustained. Find a way to launch and leverage.
 - Transparency leads to trust. Being transparent with customers, suppliers and consumers is critical.
 - Profitability has never been more important. Once your margin structure is set, it is hard to change. So, focus on profitability early.
 - There might be a “culture of conservatism” in terms of investing in the beauty space today, but a “culture of consumerism” will enable beauty to recover over time.

The Intersection of Beauty & Wellness Continues to Evolve and Expand

- In 2021, Ulta launched a version of a “Wellness Wall” in 700 doors. While there has been a steady evolution of what “wellness” means to Ulta (in terms of which product categories and which brands are featured, with Ulta having recently doubled the shelf space allocated to the Womaness brand, and with Ulta having just recently introduced The Honey Pot brand to stores), some iteration of the concept is now present in nearly all 1,400 Ulta doors. In fact, Ulta continues to hear from its customers that 3 out of 4 guests say that wellness is important to them and that ultimately, the combination of beauty and Wellness “brings joy” to consumers.
- Importantly, the definition of “wellness” continues to evolve, and there continues to be significant white space in terms of category adjacencies that more brands are identifying based both on consumer input and evolving science. For example, Amanda Bacon, founder of Moon Juice told us that much has changed since she started the brand in 2011, and that part of her optimism about the future of the business is how much clinical research is being done now regarding sleep and hormones. We heard how much AI has accelerated the pace of development when it comes to ingredients, with the CMO of Beekman 1802 talking about how effective biotechnology has been at helping identify ingredients that complement goat milk, their hero ingredient.
- That said, in recognition of the many “me too” brands that have entered the Wellness space in recent years, we heard several times over the importance of tangible and visible efficacy. For sure, when it comes to Wellness, routines are important, and we heard about how critical it is to have products be consumer-friendly (taste good, be easy to store and consume, be affordable) so that it is easier for consumers to develop usage rituals and consumption patterns. Amanda Bacon talked about how once consumers see how effective Wellness products can be with regard to relatively simple and common challenges (e.g., sleep, hydration), it is easier over time to convince them to address more complex challenges of hormonal or metabolic imbalances, for example.

Finding the Right Contract Manufacturing Partner is More Important than Ever

- At Baird, we work with both beauty brands and beauty CDMOs to help formulate strategic plans, evaluate potential partnerships, and often, to raise capital. We believe the intersection of the branded side and the supply chain side of the industry has never been more a more dynamic place to be. We attribute this not only to the continued backdrop of strong growth in the beauty industry and the growing number of brands looking to carve out a niche for themselves, but also to the increased complexity of the CDMO industry. New regulations, increased oversight, outsourcing more than offsetting insourcing, intense competition among CDMO's and more sophisticated formulations are all putting more demands on CDMOs to improve service levels for their customers.
- At the conference, we heard from several CDMOs about what they are doing to differentiate themselves in a very fragmented marketplace. One big value-add on the part of the more successful CDMOs is the ability to help brands develop proprietary formulas that help make their products more efficacious and desirable in the eyes of consumers. Another is the ability to offer brands full turnkey solutions (whereby the CDMO purchases all the raw materials and ingredients used in the production of a product), which enables the brand owner to focus on the creative side of the business as opposed to the logistics side.
- From the perspective of brands, we heard that a big challenge in partnering with the right CDMO is identifying one that can be flexible enough to work with smaller MOQs, while at the same time offering the full range of services that larger brands are offered. Keeping costs low is incredibly important for most new brands, but in the vein of "you get what you pay for", we heard repeatedly about the importance for all brands (no matter what size) of quality formulation, quality production and quality packaging.



Retail Winners: Not Just Amazon and Tiktok Shop But QVC as Well (Yes, QVC!)

- Year-to-date in 2024, most of the attention in the U.S. beauty industry when it comes to retail distribution has been the introduction of new brands to Amazon (e.g., Clinique) and the explosive growth that some brands have seen when they have a viral moment on TikTok Shop. While we still very much believe that the most successful brands in beauty will offer omni-channel distribution, it has been interesting to note the strong growth of online channels this year (with a broader brand assortment and still-high levels of social media marketing content), especially in the face of slower growth at Ulta in recent quarters.
- One entire session at the conference was focused on QVC, whose mantra is that they “bring life to products and products to life”. While we knew going in that several beauty brands over time have been hugely successful through QVC (think IT Cosmetics, Bare Escentuals, Philosophy and Perricone MD), it was interesting to learn more about the evolution of QVC’s business model since its launch in 1986. Today, QVC refers to its model of selling as “video-driven commerce”, as they now operate an ecosystem with 41% of their sales coming through their app (given nearly 3M iPhone users). QVC has 800M views of their homepage annually, with a total of 13.3M minutes viewed and supported by 8M followers on Facebook, Instagram and TikTok. Interestingly, while QVC told us that their audience is principally comprised of consumers aged 50 and older, this cohort is shifting down in age given the increased brand awareness of QVC through social media.
- Perhaps the most impressive statistic we heard about QVC’s beauty business was its “stickiness”, as we learned that 96% of sales on QVC come from repeat customers, with the best customers buying more than 80 items per year and spending more than \$4,000 per year on beauty products (that’s an average of \$50 per product). Importantly, QVC expects that the cohort it serves will see 11% growth in their spending over the next 5 years, and that they will be spending that money on brands and through retail experiences that help them feel a greater sense of self-worth, self-care, and self-promotion. Indeed, while only 31% of women aged 50+ feel supported by brands, another 75% of them turn to beauty products for self-care. One quote we heard was that “a change in hormones often leads to a change in hopes”.



Baird's Beauty & Wellness Team

Comprehensive sector coverage across products, services and contract manufacturing



Wendy Nicholson
Managing Director
 wcnicholson@rwbaird.com
 (917) 853-9901



Jon Tenan
Managing Director
 jtenan@rwbaird.com
 (310) 922-7560



Lauren Leibrandt
Director
 lleibrandt@rwbaird.com
 (678) 665-2774



Sam Scanlan
Director
 sscanlan@rwbaird.com
 (646) 557-2792

Color
Cosmetics



Skincare



Haircare &
Accessories



Personal Care



Bath & Body



Fragrance

Intimate Care



Women's
VMS



Women's
Health &
Wellness



